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UNCLAS SECTION 01 OF 02 LIMA 002553

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SUBJECT: GOP RESPONSE TO AGRICULTURAL STRIKE! PROMISES, PROMISES, PROMISES!

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**¶1. (SBU) SUMMARY:** In a four-day strike, that ended May 27, agricultural producers in ten departments put up roadblocks demanding import controls and price supports and concessions/protections for agriculture in the FTA negotiations. However, in some areas only a 15-day pause was agreed upon, hinging on GOP follow-through of some infrastructure improvements. The strike was led by rice producers and joined mainly by potato and cotton farmers. The Government of Peru (GOP) reacted quickly, promising a number of support programs, which do little to address the inherent oversupply problems of rice production. The GOP promised to purchase small quantities for feeding programs, to set up a credit scheme aimed at regulating prices, and to raise direct subsidies to cotton producers. These minor concessions will do little to resolve the agriculture sector's difficulties or to discourage future protests. END SUMMARY

**¶2. (SBU) AGRICULTURAL STRIKE:**

On May 23, agricultural producers throughout Peru began a strike with road blockades. Three groups mainly supported the strike: rice, cotton and potato producers, each of which faces different challenges and are requesting different things from the government.

-- Rice: Rice production was about 15 percent lower than usual in 2004 due to drought. Most of this reduction was in the northern coast (Lambayeque production went from 500,000 MT to 85,000 MT). To prevent shortage, millers and the government encouraged production in new areas such as San Martin and Amazonas. In 2005, northern coast rice production is expected resume normal production levels, but the new rice-producing areas will also continue producing resulting in an oversupply. Rice imports from January to May 2005(100,000 MT) nearly doubled from what Peru imported during the entire previous year. Most of the imports were from Uruguay, but the U.S. share increased significantly. Fear of lower prices due to increased supply, combined with the FTA negotiations, triggered the protests. Producers demanded import controls and support prices.

-- Potato: Potato prices in Peru are on a roller coaster. If there is a good year price-wise, then the next year increased production floods the market, causing prices to plummet. Due to lack of standardization and quality control in the sector, Peru is not a potato exporter. However, producers, encouraged by NGOs (mainly OXFAM) and CONVEAGRO (the National Agricultural Producers Organization) oppose an FTA fearing that wheat imports will replace domestic potato consumption.

-- Cotton: Peru requires about 100,000 MT of cotton per year, of which it imports about 40,000 MT, mostly from the U.S. Nearly a year ago (September 2004), the GOP announced an 8 soles (US\$2.45) per hundredweight domestic support payment. The GOP has had problems implementing the program with few cotton producers receiving the promised support. Cotton producers have been demanding the government compensate them for U.S. subsidized cotton. Cotton producers' opposition to the FTA has become stronger over the past year given the lack of government support and the result of the WTO cotton ruling against the U.S.

**¶3. (SBU) GOP RESPONSE:**

Minister of Agriculture Manuel Manrique reacted quickly to the producers' demands, calling for the following measures:

- Purchase of 18,000 MT of rice and 4,000 MT of potatoes to be used in the government's feeding program. In addition, the GOP announced that it plans to setup a government purchase program to respond to over-supply situations. However, the program does not have any funding as yet.

- Increased compensation to cotton producers from U.S.\$2.45 to U.S.\$4.3 per hundredweight. In the recent past, the government has failed to fully fund this program and pay the promised

support.

- Authorize Agrobanco (the state agricultural development bank to QUOTE warrant UNQUOTE rice. A QUOTE warrant UNQUOTE is a bank loan with product used as collateral. The product is stored under the bank's control until the loan is paid. Theoretically, if prices fall, producers could ask for a loan of up to 70 percent of the value of the product being warranted and store the product until prices improve. The warrant is a mechanism of moving product out of the market and regulating supply. Private traders and banks use the warrant system in Peru.

14. (SBU) FIFTEEN-DAY PAUSE:

The agricultural strike in San Martin (a large rice producing area) turned into a regional strike with one single demand: the construction of a road between Juan Guerra and Tocache which would reduce the transport distance to market from 1500 to 900 kilometers. The strike was temporarily lifted on May 29 for fifteen days. The farmers in the area have threatened to produce more coca if the government does not build the road they want.

15. (SBU) COMMENT: KEEPING PROMISES?

The promises made to the producers by the GOP are a stopgap measure at best. Lack of long range-integrated planning, combined with the absence of financial support for the programs, appears to doom their efficacy, even before they begin. There is no long-term benefit for farmers in buying an insignificant part of the crop for one time under the government-feeding program. The GOP needs to provide technical assistance to improve yields and efficiency, improve communications and infrastructure, and to provide timely information about planting and prices so that producers can make educated decisions as to what to plant and how much.

16. (SBU) It remains to be seen how effective the warrant program will be. Lack of economies of scale, high administrative costs, and the lack of credit worthiness of many small producers put the workability of the program into question. It is doubtful that in case of non-payment by the small producers, banks would actually take ownership of the rice as it would precipitate rural unrest and future strikes.

17. (SBU) Agricultural strikes are not unusual and the government's solution to these frequent strikes has been to make minor concessions and suggest longer-term assistance, which is unsustainable due to budget constraints, setting the stage for more strikes and a likely increase in opposition to the FTA from the traditional agriculture sector. STRÜBLE